

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO**

In re:

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD OF PUERTO RICO,

PROMESA
Title III

as representative of

THE COMMONWEALTH OF PUERTO RICO, *et al*

No. 17 BK 3283-LTS
(Jointly Administered)

Debtors.

**QTCB NOTEHOLDER GROUP'S RESERVATION OF RIGHTS
REGARDING MOTION FOR ENTRY OF ORDER EXTENDING TIME TO ASSUME
OR REJECT UNEXPIRED LEASES OF NONRESIDENTIAL REAL PROPERTY**

The QTCB Noteholder Group,¹ whose members collectively hold hundreds of millions of dollars in principal amount of those certain Qualified School Construction Bonds and Qualified Zone Academy Bonds (collectively, the “QTCB Bonds”) issued by the Puerto Rico Public Buildings Authority (the “PBA”), and guaranteed by the Commonwealth of Puerto Rico (the “Commonwealth”) pursuant to Act No. 56 of the Legislative Assembly of Puerto Rico, approved June 19, 1958 (as amended, the “PBA Enabling Act”) and under the provisions of PBA Resolution No. 468 adopted June 22, 1995, as supplemented by Resolution No. 1596 adopted August 10, 2011, and Resolution No. 1618 adopted December 19, 2011 (collectively, the “PBA Bond Resolution”) submit this reservation of rights (the “Reservation of Rights”) in the above-captioned Title III case (the “Title III Case”) regarding the Motion for Entry of Order Extending Time to Assume or Reject Unexpired Leases of Nonresidential Real Property Pursuant to Bankruptcy Code Section 365(d)(4) [ECF No. 705] (the “Motion”). The Motion seeks to extend by 90 days the deadline for the assumption or rejection by the Commonwealth,

¹ The QTCB Noteholder Group shall have the same meaning as set forth in Notice of Appearance and Request for Notice [ECF No. 134].

COFINA, ERS, and HTA of any Real Property Leases.² In support of this Reservation of Rights, the QTCB Noteholder Group respectfully represent as follows:

Background

1. On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, commenced this Title III case pursuant to sections 104(j) and 206 of the PROMESA.

2. PBA leases and subleases its portfolio of real estate assets to the Commonwealth and its various departments, agencies, instrumentalities and municipalities (the “PBA Leases”). The rental payments from these leases are established in amounts sufficient to pay principal, interest and any premium on the QTCBs as the same become due and payable—as well as operational expenses and certain maintenance costs of the leased properties. The QTCBs are secured by the revenue stream from such rental payments.

3. In addition to its own direct rental payment obligations, the Commonwealth guarantees the rental payment obligations of the departments, agencies and instrumentalities of the Commonwealth that lease PBA properties.

4. In 2016, the Commonwealth ceased making direct and/or guaranteed rental payments under the PBA Leases. The Commonwealth’s current Fiscal Plan limits rental payments to only the amount necessary to fund operating expenses for the properties subject to the PBA Leases. As a result, PBA and the Commonwealth have failed to fully satisfy their QTCB interest payment obligations since late 2016.

5. If the Commonwealth fails to cure the breach of the PBA Lease payment obligations, PBA and its stakeholders will have claims against the Commonwealth.

² All terms not otherwise defined herein shall have the meaning given thereto in the Motion.

Reservation of Rights

6. The QTCB Noteholder Group does not object to the Motion or the Proposed Order. However, the QTCB Noteholder Group reserves all rights regarding the PBA Leases.

7. To the extent that the PBA Leases are subject to section 365 of the Bankruptcy Code, any further extension of the deadline to assume or reject the PBA Leases will require consent pursuant to section 365(d)(4)(B)(ii) of the Bankruptcy Code (made applicable by PROMESA section 301(a)). Adequate creditor participation and transparency will be critical to ensure the integrity of any effort by the Commonwealth to further extend the deadline, to assume or reject the PBA Leases and/or to modify or restructure the PBA Leases. In addition, there are material tax sensitivities relating to any effort to restructure PBA and/or the PBA Leases that must be carefully considered to avoid further economic damage to PBA, the Commonwealth and their various stakeholders.

8. The QTCB Noteholder Group has discussed the tax sensitivities relating to the QTCBs with AAFAF and the Oversight Board. The QTCB Noteholder Group intends to continue that dialogue with respect to treatment of the PBA Leases and to negotiate a reasonable protocol to ensure adequate creditor participation and transparency in connection with any restructuring of PBA and/or the PBA Leases.

9. The QTCB Noteholder Group further expressly reserves any and all (direct or derivative) claims and rights to object, intervene, act, or bring or make any motion, request, or argument regarding the PBA Leases arising under the PBA Leases, the PBA Enabling Act, the PBA Bond Resolution, the Bankruptcy Code, PROMESA and all other applicable laws.

Dated: July 28, 2017

BRACEWELL LLP

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I HEREBY CERTIFY that on July 28, 2017, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send automatic notifications of such filing to all attorneys of record.

/s/ Roberto Abesada-Agüet

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